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SUBJECT: Argentina: New Agricultural Measures Will Have Little Impact

¶1. (U) Summary: On December 22, 2008, President Cristina Fernandez de Kirchner (CFK) announced a new package of stimulus measures for the Argentine agricultural sector. Although previously announced at the beginning of December, a plan to reduce the export tax on wheat and corn by five percentage points was confirmed -- for wheat, the new export tax will be 23%, and for corn it will be 20%. The President also announced that when historical production averages are exceeded -- 13 million tons for wheat and 15 million tons for corn -- export taxes will decrease by one percentage point for large producers (those producing over 2,500 tons of wheat, and 5,000 of corn), two percentage points for medium-size producers (between 500-2,500 tons of wheat, and between 1,000 and 5,000 tons of corn), and five percentage points for small producers (up to 500 tons of wheat and 1,000 tons of corn), per each additional million tons produced. This plan has been called "Plus-Programs." In an attempt to stimulate cattle production, the GOA plans to build five feed-lot operations with a total capacity of 200,000 cattle, which is projected to produce 100,000 tons of beef for the export market. With regard to fruits and vegetables, the export tax for pears, apples, peaches, citrus fruit, grapes, blueberries, strawberries, onions, frozen potatoes, beans and pulses will be reduced by 50% (i.e., fresh deciduous fruit and stone fruit will pay a 5% export tax, while citrus fruit and vegetables will pay 2.5%). Contrary to expectations reported in the local press, the GOA did not include tax reductions for soybean and sunflower exports. Many attribute this decision to former president Nestor Kirchner, who reportedly still bears a grudge against soy farmers for their leading role in the March-July showdown over export duties. End Summary.

New Measures Likely to Have Little Impact

¶2. (U) On December 22, 2008, President Cristina Kirchner announced a new package of "stimulus" measures for the Argentine agricultural sector. Although previously announced at the beginning of December, a plan to reduce the export tax on wheat and corn by five percentage points was confirmed (published in the Boletin Oficial on December 24). For wheat, the new export tax will be 23%, and for corn it will be 20%. Post contacts maintain that this reduction will not create any significant benefit for producers. Currently, the GOA does not allow exports of either wheat or corn in order to increase the domestic supply. That export ban has prevented FOB prices from rising the additional $6 to $8 per ton expected under the new tax rate. When exports are permitted (along with the expected rise in FOB prices previously mentioned), an additional $106 million will likely be passed along to farmers. From a fiscal standpoint, the GOA stands to lose that estimated $106 million. The farm sector has characterized these measures as insufficient, explaining that tax reductions totaling $106 million are a miniscule part of the $6.15 billion the sector contributes in the form of annual export tax revenues. Farmers were expecting the export taxes on oilseeds

(soybeans and sunflowers) to also be lowered by 5%. The GOA has avoided doing so, however, as that would generate tax revenue losses estimated at $800 million.

¶3. (U) The President also announced that, when historical production averages are exceeded -- 13 million tons for wheatand 15 million tons for corn -- export taxes will decrease by one percentage point for large producers (those producing over 2,500 tons of wheat, and 5,000 of corn), two percentage points for medium-size producers (between 500-2,500 tons of wheat, and between 1,000 and 5,000 tons of corn), and five percentage points for small producers (up to 500 tons of wheat and 1,000 tons of corn), per each additional million tons produced. This plan has been called "Plus-Programs." These measures will create no benefit for farmers this year since all planting has already occurred for those crops and production will not reach the necessary levels for farmers to receive the benefits -- grains production for the 2008/09 season is expected to fall significantly due to lower planted area and severe drought.

¶4. (U) Post contacts believe that the Plus-Programs will be largely ineffective at promoting increased grains production for future crops due to: 1) the GOA's inability to accurately estimate overall production (there is also a fear that the GOA will purposely underestimate production to avoid giving producers the benefit); and 2) a lack of real incentives for farmers to increase planting intentions, since the benefits of the program are tied to all farmers' decisions, as well as climatic variations that affect the country's overall production. Producers argue that the program benefits should have been tied to an individual farmer's planted area rather than overall historical production.

¶5. (U) In an attempt to stimulate cattle production, the GOA plans

to build five feed-lot operations with a total capacity of 200,000 cattle, which the GOA expects to produce 100,000 tons of beef for the export market. It is unclear that this will be a viable stimulus to overall beef production. Experts warn that these operations are extremely complicated and question whether the GOA has the technical capability to bring this project to fruition.

¶6. (U) With regard to fruits and vegetables, the export tax for pears, apples, peaches, citrus fruit, grapes, blueberries, strawberries, onions, frozen potatoes, beans and pulses will be reduced by 50% (i.e., fresh deciduous fruit and stone fruit will pay a 5% export tax, while citrus fruit and vegetables will pay 2.5%). To date, this measure has not been published in the Boletin Oficial. Even if the measure is enacted, Post does not expect the changes announced to have a significant impact on overall fruit and vegetable production. Export taxes for these products are already relatively low (5% to 10%) and a reduction by half does not amount to a significant alleviation of tax burden. Critics also point out that the government did not extend the same benefits to other products grown in different regions of Argentina such as tobacco, tea, wool, and yerba mate.

Reaction from the Campo

¶7. (U) Agricultural leaders and the Agricultural Liaison Committee harshly criticized the announcement, though the measures were ostensibly made on the farm sector's behalf. The Liaison Committee stated that the new measures are "not enough" and that "the announcements confuse the lay person. Not only do they [GOA] present measures that were already announced as new, they try to sway public opinion that by lowering export taxes, they are providing solutions for producers." President of the Sociedad Rural Argentina (SRA), Hugo Biolcati, considered the President's announcement a "clear provocation" and stated earlier this week that if the government does not "change its attitude" toward the sector, new protests are "inevitable." He indicated that February or March would be the best time for such action.

¶8. (SBU) The disappointment expressed by the farm groups stems from the fact that many of their members had hoped that the GOA would include reductions for soybeans and sunflowers. This did not

happen, prompting speculation that influential former president and presidential spouse Nestor Kirchner withheld them because of his grudge against soy farmers for their leading role in the March-July showdown over export duties.

Comment

¶9. (SBU) Post contacts confirm that the financial situation and outlook of agricultural producers is worse now than it was in March 2008, when farm organizations staged a four-month long strike against the GOA. With farmers' finances deteriorating and anger mounting over the perceived insufficiency of the GOA's latest measures, it seems very possible that early 2009 could see the start of yet another chapter in Argentina's recent history of conflict between agricultural producers and the government. End Comment.

WAYNE